



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, DC 20240

JUN 20 2006

The Honorable Darrell Issa  
House of Representatives  
Committee on Government Reform  
Washington, D.C. 20515-6143

Dear Chairman Issa:

This is in response to your June 12, 2006 letter inviting me to testify before the House of Representatives Government Reform Subcommittee on Energy and Resources. Following discussions between our respective staffs, I am submitting this letter in lieu of testimony to update you on the efforts of the Office of Inspector General (OIG) for the Department of the Interior (DOI) concerning the royalties issues attendant to deepwater leases awarded by the Minerals Management Service (MMS), and particularly the failure to include royalty thresholds in leases awarded in 1998 and 1999.

The *New York Times* reported on January 23, 2006 that companies producing natural gas may have avoided paying DOI MMS the full amount of royalties owed under the law. The OIG received a letter dated January 23 from Senator Charles Schumer asking for a report on the issue to Congress, and on January 24 Comptroller General David M. Walker, Government Accountability Office (GAO), received a letter signed by 22 senators requesting a review and report on the processes of royalty accounting and collection.

The OIG and GAO subsequently met with staff of the Senate Committee on Energy and Natural Resources, as well as personal staff of the 22 Senators. The OIG and GAO negotiated a division of labor between the two oversight organizations, and established priorities agreeable to the Senate staff. In summary, the OIG agreed to review the audit and compliance review capacity of MMS, while GAO undertook to verify the accuracy of MMS' response to the *New York Times* article concerning royalty numbers.

Contemporaneous with the OIG's and GAO's efforts, MMS officials testified before the Senate Committee on Energy and Natural Resources. Among the issues of concern was the failure to include royalty thresholds in leases sold by MMS in 1998 and 1999. Following MMS' testimony, and a discussion between the MMS Director and Deputy Inspector General, the OIG initiated an investigation on January 25 to determine the circumstances surrounding this failure.

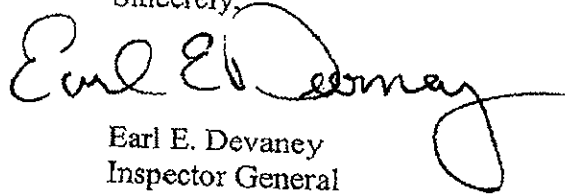
Since initiating the investigation, OIG Special Agents have conducted 27 interviews, thus far, of attorneys in the Office of the Solicitor and present and former MMS officials, in the Washington, D.C. area and in New Orleans, Louisiana. They have obtained more than a thousand pages of documents and are in the process of reviewing and analyzing that information. They will be conducting additional interviews to follow up on information obtained through previous interviews and relevant documentation. They have also reviewed 5,000 emails. If appropriate, the results of the investigation may be presented to the Department of Justice for a prosecutorial determination. If prosecution is declined, a Report of Investigation will be issued by the OIG to the Secretary of the Interior for whatever administrative or other corrective action he deems appropriate.

It is the practice of the OIG when prosecution is declined, upon receipt of a request from the Chair of a cognizant committee or subcommittee, to provide a copy of its Report of Investigation to the committee or subcommittee Chair in its entirety. This typically includes personal privacy, confidential or otherwise privileged information which would be exempt from release to the public pursuant to provisions of the Freedom of Information and Privacy Acts. In high profile cases, or significant cases of national importance, the OIG also prepares a redacted copy of its Report of Investigation that protects the personal privacy interests and confidential or privileged information contained in the report, but reveals to the greatest extent possible the substance of the Report of Investigation. In this matter, the OIG would likely prepare such a redacted version of its Report for public consumption.

Although it is always difficult to predict when the Report of Investigation will be finalized, the OIG anticipates that a Report might issue within six to eight weeks of today's date.

If, in the meantime, you have additional questions or concerns, please do not hesitate to contact me at (202) 208-5745, or your staff may contact my Deputy, Mary Kendall, or Kris Kolesnik, Associate Inspector General.

Sincerely,

  
Earl E. Devaney  
Inspector General